

State of Utah

Division of Fleet Operations and Surplus Services 2004 Annual Report

*A year in review relating to the division's
accomplishments, innovation, success
and cost reductions.*

Preface

Overview

In FY2004, the division of Fleet Operations once again experiences many incredible successes relative to fleet cost reductions and innovation.

Additionally, in FY04 the division again observed a continued consistency within the statewide fleet data. We believe this is due to three primary driving factors; 1) The report card process, 2) Increased awareness and participation by each fleet agency and 3) Implementation of fleet operations administrative rules.

Each year, we have the opportunity to look at the numbers part of the fleet business. In 2004 many positive trends continued to emerge in the state fleet.

The overall fleet costs related to the state fleet continue to show a downward/leveling trend over past five fiscal years, even though we saw a slight 1% increase in FY2004 which is less than the annual inflation rate. This leveling out of the statewide fleet costs allows the division to more effectively manage these services and set goals for future improvements.

Part of this slight increase relates to the centralization of vehicles and DFO's continued effort to capture all fleet costs. DFO has been systematically working with each of the state agencies to capture all vehicle related expenses paid out of non-fleet accounts, like P-Cards and petty cash.

Fiscal year 2004 celebrates the division's seventh year of existence as an official state agency. The division was created during the 1996 legislative session to centralize statewide fleet services and account for the state's fleet assets in an organized and professional manner. The division derives its charge from the Utah Code Annotated Utah Code -- Title 63A -- Chapter 09 -- Division of Fleet Operations and Administration of State Motor Vehicles. The primary duties of the division can be found in UCA 63A-9-401 and include the following:

1. Perform all administrative duties and functions related to management of state vehicles.
2. Coordinate all purchases of state vehicles;
3. Establish one or more fleet automation and information systems for state vehicles;
4. Make rules establishing requirements for:
 - a) Maintenance operations for state vehicles,
 - b) Use requirements for state vehicles,
 - c) Fleet safety and loss prevention programs,
 - d) Preventative maintenance programs,
 - e) Procurement of state vehicles, including vehicle standards, alternative fuel vehicle requirements, short-term lease programs, equipment installation, and warranty recovery programs,
 - f) Fuel management programs,
 - g) Cost management programs,
 - h) Business and personal [vehicle] use practices, including commute standards,
 - i) Cost recovery and billing procedures,
 - j) Disposal of state vehicles,
 - k) Reassignment of state vehicles and reallocation of vehicles throughout the fleet,
 - l) Standard use and rate structures for state vehicles; and insurance and risk management requirements.
5. Establish parts inventory,

6. Create and administer a fuel dispensing services program,
7. Emphasize customer service when dealing with agencies and agency employees,
8. Conduct an annual audit of all state vehicles for compliance with division requirements,
9. Before charging a rate, fee, or other amount to an executive branch agency, or to a subscriber of services other than an executive branch agency. Submit the proposed rates, fees, and cost analysis to the Rate Committee and obtain the approval of the Legislature,
10. Conduct an annual market analysis of proposed rates and fees, which analysis shall include a comparison of the division's rates and fees with the fees of other public or private sector providers where comparable services and rates are reasonably available.

With this charge the division set about to organize the state's fleet operations. The philosophy of the division is to make sure all its employees are tied to the division's goals and strategic objectives. This is accomplished through a series of critical management steps:

Step #1: Develop divisional plan in accordance with establish vision, mission, goals and objectives.

Step #2: Continuous updating of the division's "Standard Operating Procedures (SOPs) to make sure each employee' individual "Performance Plan" identifies their interrelational tasks and responsibilities to others in DFO.

Step #3: Hold periodic "Personal Performance Interviews (PPIs)" with each employee providing regular feedback sessions. Align individual performance to an effective "Incentive Award" program.

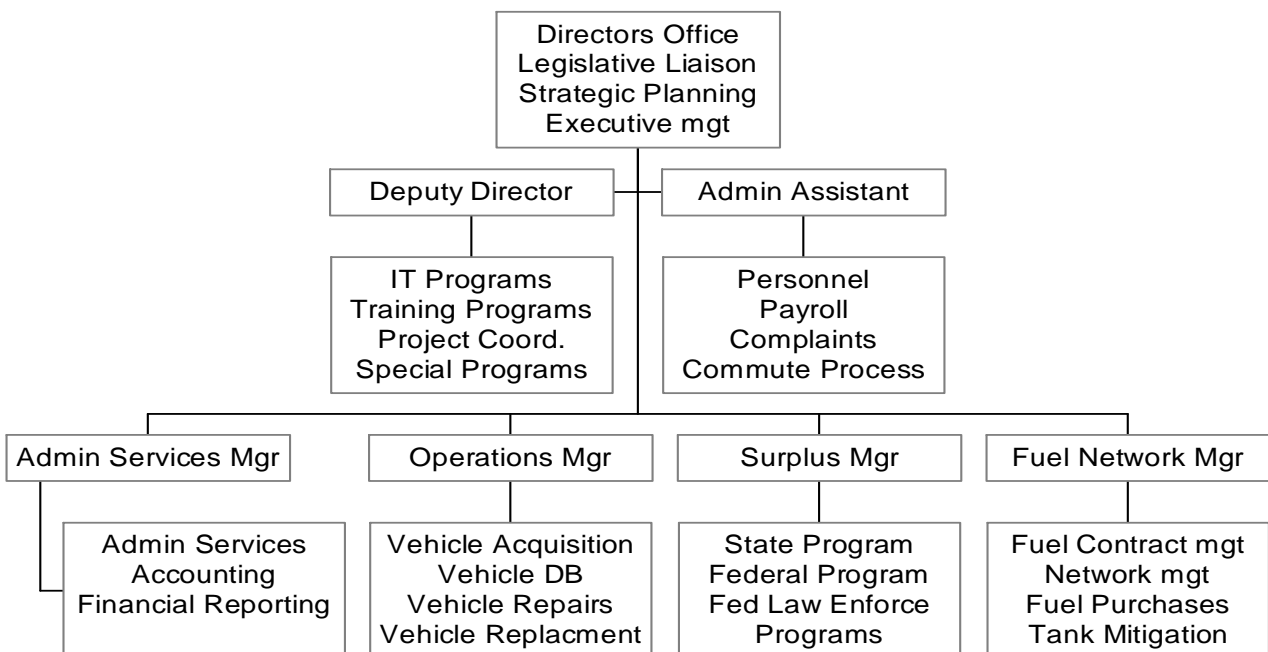
Step #4: Hold quarterly program manager meetings to analyze accountability and report on successes.

Step #5: Require, review and analyze program weekly reports to make sure the division is on target with its goals and objectives.

Step #6: Streamline internal processes on regular basis, develop effective reporting tools and online report. Report all successes annually renewing DFO's commitment to goals and strategic objectives.

Report Content

This report is organized into sections relating to the functional units or division programs. The division is divided into four (4) major administrative units or programs: 1) Administration, 2) Operations, 3) Fuel Network Services, 4) Surplus Property. (See Organization Chart below)



Section 1

Administration Program

Overview

The Administration program consists of the Director's Office, Administrative Services (Accounting), and the Information Technology sections.

Director's Office

The director's office is responsible for the executive level program management, legislative interface, strategic planning and the overall direction of the division. The program consists of the Fleet Operations Director, Deputy Director and Administrative Assistant.

Administrative Services

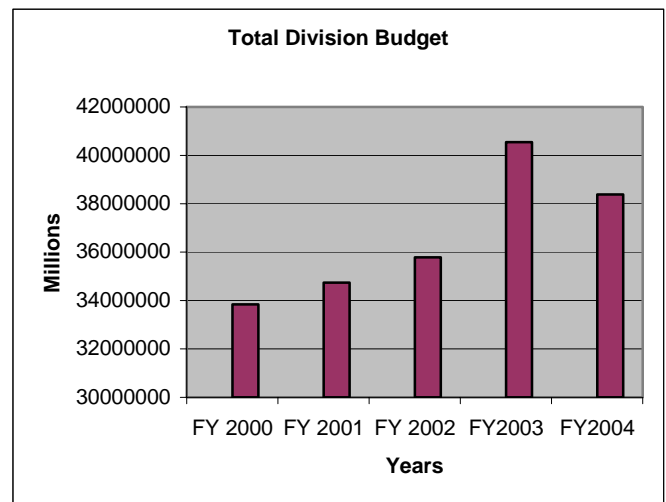
This section provides the division with centralized administrative services and accounting responsibilities division wide. This section prepares the division's financial statements and reporting; manages Accounts Payable (AP), Account Receivables (AR), Inventory management; prepares the division's budget and rates processes; and manages the division's Purchase Order (PO) systems.

Statewide Fleet Budget

This past year DFO saw a slight decline in the annual budget dollars needed to operate the division since the statewide centralization began. This may be a indicator that the centralization effort is starting to yield fleet cost savings with the elimination of duplication and redundancy.

Information Technology (IT)

This unit consists of applications programmers and system administrators and training personnel. The primary objective of this unit is to manage the division's "IT" plan and maintain the existing computer systems. This section is also responsible for developing division applications and system interfaces.



FY 2004 Summary- "A year in review"

This past year the Administration program continues to increase efficiencies and reduce statewide fleet expenditures.

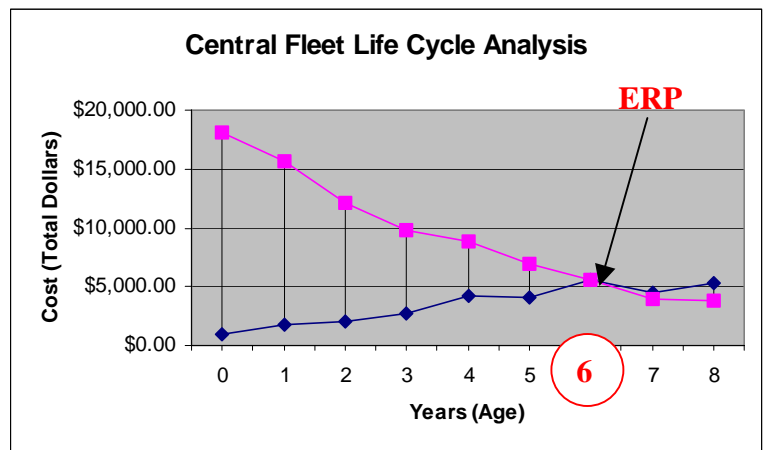
Rate Matrix

This past year the administration program officially rolled out its revolutionary and innovative rate structure, called the "Rate Matrix". The rate matrix consists of a table (matrix) ranging from a two-year (2) to twelve-year (12) vehicle life.

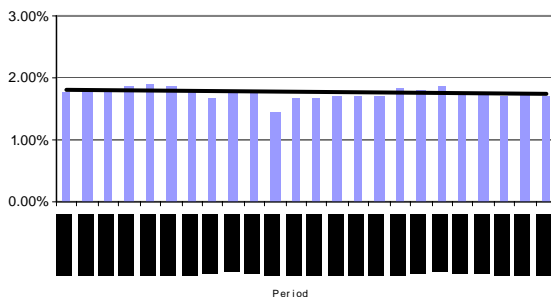
We believe this new system is the first of its kind nationwide in state government fleet management operations. The new system allows the division and its customers to adjust vehicle life cycle in a “Real-time” environment promoting the most efficient utilization of state-owned vehicles. The administration of the program provides for two annual “life-cycle” adjustments each year, one in January and another in July. As these adjustments occur each individual vehicle is realigned into its proper life cycle in relation with the state’s 90,000 mile rotation (replacement) policy. We observed during the first year of implementation that the rate matrix is accomplishing its designed intent to more effectively manage vehicle utilization. Agencies have responded proactively to analyze their assigned vehicles on a regular basis to make sure they are operated efficiently. This efficient management will ultimately reduce statewide vehicle expenses.

Life Cycle Policy

The state’s replacement policy is founded on “Best Fleet Management” practices, wherein replacement occurs at (or near) the intersection of total vehicle “Ownership” costs and total vehicle “Operating costs”. Last fiscal year (FY03), the division conducted a project to analyze the established replacement policy to validate its validity.



Administrative Costs Compared to Total Division Costs



The replacement cycle is established at six (6) years (or 90,000 miles). On the chart above the two lines intersect at exactly six (6) years. The declining line represents “Ownership Costs” which includes primarily depreciation (Purchase), upfitting and salvage costs. The inclining line is “Operation Cost” which includes, fuel, maintenance and PM. By replacing a vehicle at the “Economic Replacement Point (ERP)” where these lines intersect (6 years) fleet Operations is able to fully utilize a vehicle without incurring a catastrophic failure of a major vehicle component like an engine or transmission. This performance measurement (Benchmark)

allows DFO to operate at the most cost effective level possible. The graph above right titled, “Central Fleet Life Cycle Analysis” depicts the actual state fleet vehicle operation as it relates to the established replacement policies.

Administrative Costs (Overhead)

Another benchmark that DFO follows very closely in the administration of the state fleet is the percent of “Administrative overhead” relative to its total budget dollars. This performance measurement allows DFO to make sure the “economies of scale” captured with the fleet centralization does not decrease productivity and effectiveness. The graph to the left depicts the division’s success in managing this important benchmark. Our goal is to keep this measurement below 2% of the total division budget.

Division Productivity Increases

The division also tracks the ratio between the number of employees and the total number of vehicles managed. This ratio is a productivity measurement designed to make sure the vehicle fleet and its employees are managed efficiently. As the centralization of the fleet has taken place the past seven years, DFO has continually been successful in doing “*more with less*” as it manages the state’s fleet assets and equipment.

The division’s full-time employee (FTE) count has significantly reduced during its seven-year history.

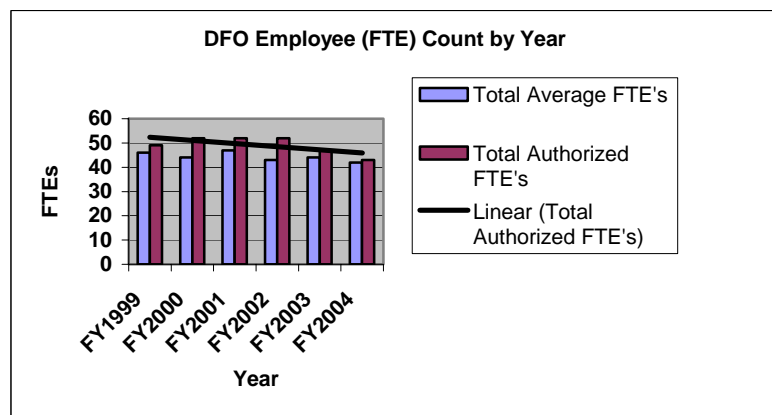
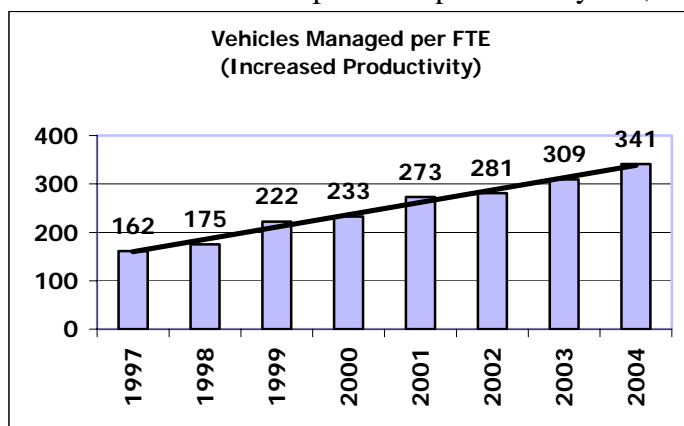
This has been accomplished through:

- ✓ Effective management policies/philosophies,
- ✓ DFO individual employee creativity and productivity,
- ✓ Effective outsourcing of key activities,
- ✓ Continued internal process mapping procedures, and
- ✓ Introduction of new technology and automation tools,
- ✓ Change management and adaptation abilities
- ✓ Effective benchmarking and strategic planning processes to achieve continuous improvement.

Total FTE reductions amount to almost a 20% reduction in the division’s employee personnel total costs since 1997. (From 52 to 42 FTEs)

Meanwhile, all such FTE reductions occurring amid the statewide fleet centralization effort

continues at a steady pace. DFO employees have increased productivity from managing 162 vehicles on average to 341 in FY 2004. This is a remarkable accomplishment for a small division like DFO, shows that government can be managed at an efficient level. DFO has continued to keep its costs low when compared to private sector fleet operations. This has occurred through an effective strategic balance of outsourcing and internal cost reduction initiatives.



General Fund Debt

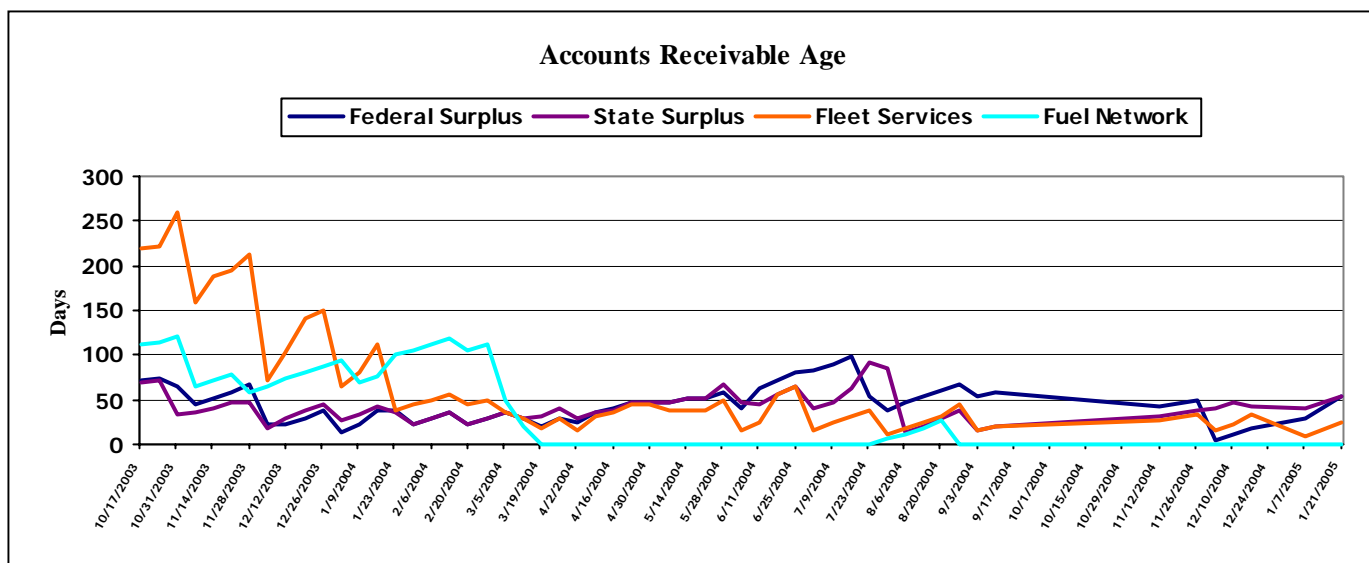
The GF debt related to the fleet consolidation reached an all time high of approximately \$34,000,000 dollars. This policy change was intended to keep the total GF debt static until such a time as the money could be appropriated to pay it off. Prior to the fleet consolidation the General Fund debt hovered around \$20-23 million annually.

In first quarter 2004, the total GF debt was about \$22 million dollars.

DFO has worked closely with the Governor’s office to reduce the annual amount of capital authorization request. This is back almost to the level prior to the statewide fleet consolidation. The chart to the above shows a snapshot of at least one fiscal period in the past six fiscal years. The significant result that this debt reduction has affected is the amount of the division’s request for capital authorization, which has shown a decline by 45% since FY 2001.

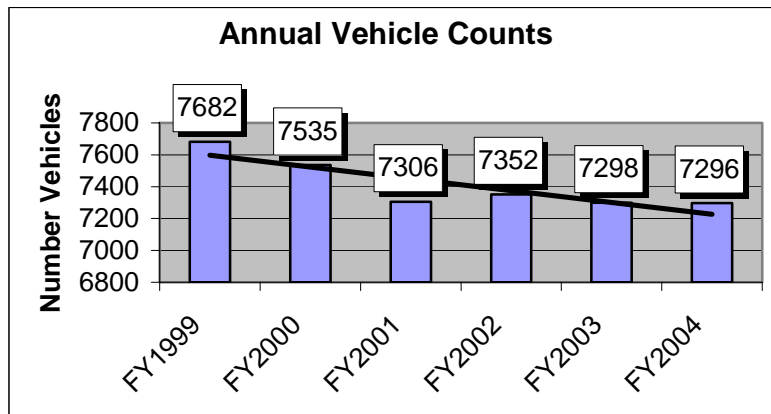
Accounts Receivable Process

The Division of Fleet Operations manages approximately 350 accounts for which we collect receivables. Because we have so many non-state customers, collections have a major emphasis within the administration program. Since FY 2001, the division has reduced its receivable balances from \$600,000 down to less than \$300,000, and today's average target age is about 50 days. This success has increased the amount of cash available to the division for covering costs and to the State Treasurer for investment.



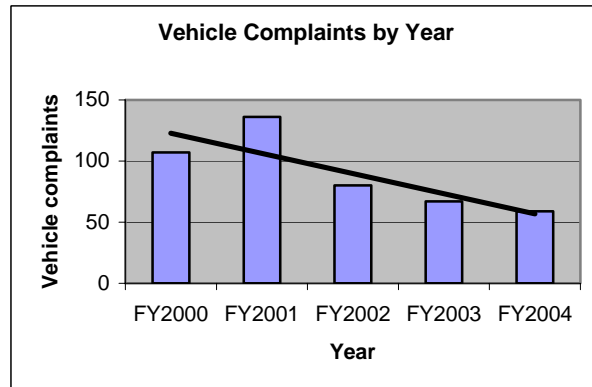
State Vehicle Report

Each year DFO is tasked with producing a state Vehicle report that is sent to the Governor and the Legislature. This past year DFO witnessed another slight decline in the statewide vehicle count totals. Since the creation of DFO this decline has been continuing to take place. The reductions have occurred through increased cross-utilization of assets and legislative fleet vehicle reduction mandates, like the one that took place in FY 2003. During the past year, the fleet DFO directly managed increased by 4% over the previous year and the centralization process continues. DFO directly manages 60% of the state's fleet assets.



Vehicle Complaint Process

DFO admin also manages the statewide "Vehicle Complaint" process for all exempt government "EX" vehicles operated. For the past several years we have seen a steady decline in the number of complaints received from the public. The graph below shows this decline.



Meter Validation Program

One of the most important and difficult management initiatives undertaken by DFO relates to the effective monitoring of the vehicle mileage. DFO believes that the most critical benchmark in a fleet management operation is accurate mileage obtained from the individual vehicle and equipment odometer readings. Effective fleet management depends on accurate vehicle mileage.

Programs like vehicle repair and maintenance; fuel efficiencies, proper vehicle utilization and replacement all depend heavily on mileage. DFO adopted the motto of “*Accurate Mileage is the Life blood of good fleet management*”. With this in mind the division set out to establish strategic goals and objectives to make sure the vehicle mileage collected is accurate to make informed decisions.

The mileage program called for several strategic steps to take place.

Step #1:

Create an automated program that reviews mileage collected from several data sources and rejects any odometer readings that are out of range (Measured by fuel tank capacity as a base 500-1,000 mile range). Create a “Zero Miles” report that produces exception vehicles that do not report miles on a regular basis. (Measured by months with odometer readings.)

Step #2:

Make the vehicle operator and fleet contact accountable for accurate vehicle mileage data entry. DFO introduced a \$50 fee for any blatant or egregious odometer entries that occur. Work with agencies to obtain correct mileage information daily.

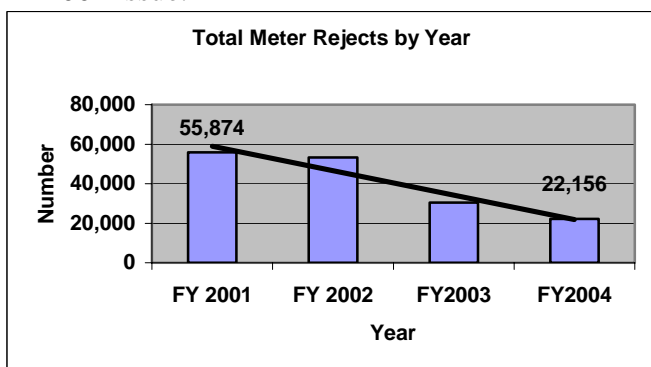
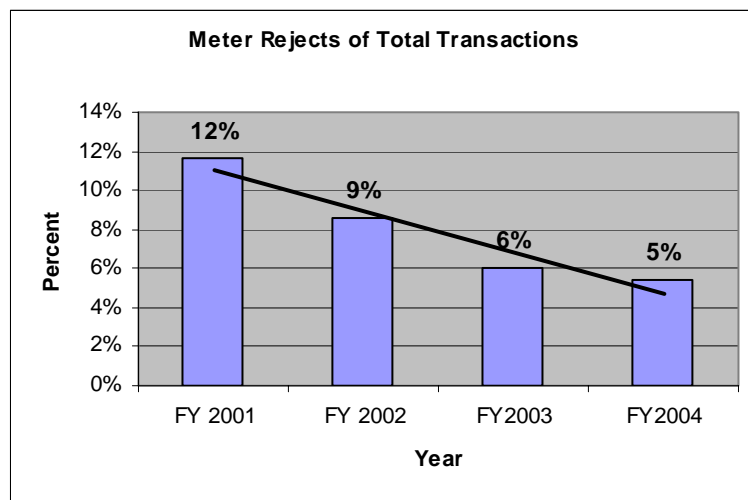
Step #3:

Monitor number of rejects that occur from fueling transactions on a monthly basis to track progress. (Measure: Percent of total transactions rejected.)

Step #4:

Review reports and set goals and objectives that initiate continuous improvement of the state vehicle mileage program.

This innovative approach received national recognition in an article titled “Accurate Mileage: The Lifeblood of Good Fleet Management”, published by Government Fleet magazine in their May/June 2004 issue.



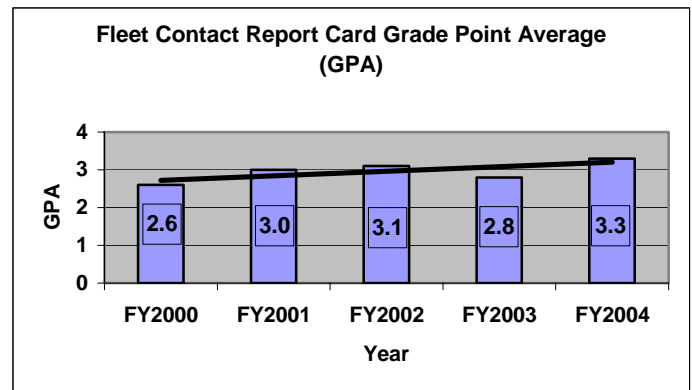
Since the adoption of this aggressive mileage validation policy, the vehicle mileage has continued to improve statewide. This section includes two graphs relating to the progress made with DFO’s “Meter Reject” monitoring program. The first graph shows the percentage of total transactions received compared to the rejects. DFO achieved the near impossible, last year when it reached 95% accuracy with individual mileage data processed for the state vehicles in FY 2004. Moreover, the second graph shows the actual decline in

total meter rejects tracked in 2001's report equaling 55,874 (Begin date) to last year's documented reduction total down to 22,156. This change since 2001 equals a 152% improvement in the accuracy of state's fleet vehicle meter readings since the program was initiated. This is remarkable progress when you consider the state processes an average of over 430,000 meter readings on an annual basis.

Report Card Process

The Report Cards are a means of analyzing the quality of the data that is being entered into the Fleet Tracking Software System. Each year a syllabus is distributed and training is offered for all agencies. Reports are also provided so that all agencies can monitor their data throughout the year. After allowing the agencies 8 – 10 months to review their data an initial grade is distributed and two – three weeks is given for Agencies to improve their grades before the Final Report Card is distributed to the Division Directors and LFA. In 2003, DFO

became much stricter in the criteria graded and brought more agencies into the loop. This last year, 2004, revealed more 'A' grades than ever before.



Other Key Benchmarks

In addition to these annual measurements discussed above, the division produces several weekly, monthly, and annual reports including financial ratios that show continuous improvement toward DFO's established goals and objectives.

- ✓ Total number of "Light-duty" vehicles statewide (5,970),
- ✓ Total Number of "Heavy-duty" vehicles statewide (1,326),
- ✓ Total number of expansion vehicles approved by the Legislature. (22)
- ✓ Total Number of Vehicle managed directly by DFO (4,376).
- ✓ Total maintenance transactions (20,292),
- ✓ Total FiNet transactions processed (132,326).

A complete list of all key indicators and measurements tracked by DFO can be found in the appendix section of this report.

Section 2

Operations Program

Overview

This program is the backbone of the division or where the “rubber meets the road”. Operations are responsible for each state vehicle from cradle (Purchasing) to grave (Disposal) and everything in between. This program is divided into the following responsibility cost centers:

1. Vehicle data entry process
2. Vehicle/equipment specification and purchasing
3. Vehicle licensing and registration program
4. Vehicle repair/maintenance management
5. Motor pool (Short-term rental) program
6. Vehicle replacement program
7. Vehicle accident management programs
8. Alternative Fuel Program mandates

FY 2004 Summary- “A year in review”

The Operations program is directly responsible for most of the vehicle related activities in DFO. This functional unit interfaces with the division’s customer and agency fleet contacts on a daily basis.

Vehicle data entry process

The annual vehicle data management process is highly dependent on accurate input into the division’s fleet management information system. This task is a monumental task when you consider the sheer volume of data transactions that occur within the state’s fleet annually. The data collected in DFO’s information system is used to produce this annual report and to set future goals and initiatives relating to continuous improvement.

Vehicle benchmarks

Among the many benchmarks that are tracked by the division is the annual “cost-per -mile (CPM)” relating to the state fleet. Below is a table that shows each CPM for the past three years:

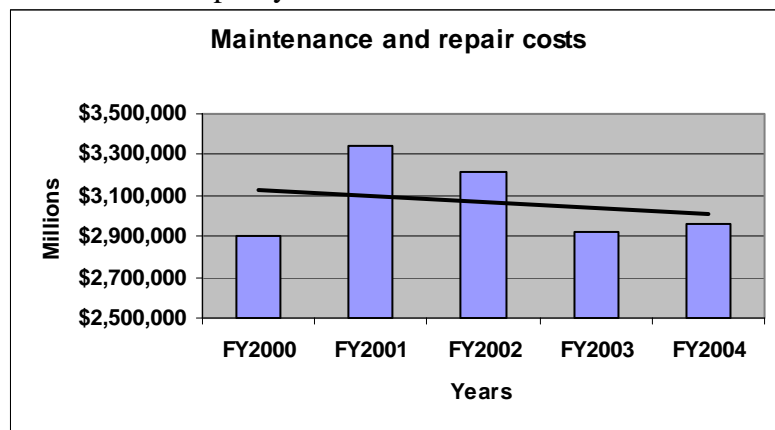
Tracking vehicles on a CPM basis provides DFO with a measurement that shows continual improvement.

Fiscal Year	FY2002	FY2003	FY2004
Cost Per mile (CPM) All vehicles	\$0.2281	\$0.2248	\$0.2388
DCPM (Depreciation Cost Per Mile)	\$0.1120	\$0.1275	\$0.1281
MCPM (Maintenance Cost Per Mile)	\$0.0357	\$0.0298	\$0.0304
FCPM (Fuel Cost Per Mile)	\$0.0319	\$0.0322	\$0.0380
ACPM (Accidents Cost Per Million Miles)	\$0.0067	\$0.0086	\$0.0091
PMCPM (Preventative Maintenance Cost Per Mile)	\$0.0076	\$0.0056	\$0.0069
BrakeCPM (Brake Cost Per Mile)	\$0.0054	\$0.0034	\$0.0051
TCPM (Tire Cost Per Mile)	\$0.0085	\$0.0062	\$0.0072
ECPM (Engine Cost Per Mile)	\$0.0098	\$0.0066	\$0.0103

CPM of vehicles can become an important benchmark when you consider the state fleet travels over 90 million miles annually. For example, if DFO can cut the operating costs by just one penny per mile, this would result major cost savings.

This past year we noticed a slight increase in the CPM for state vehicles. While it is normal to see a slight increase based on the inflation factors associated with vehicle acquisition (depreciation), vehicle repair services and fuel expenses, it is important to notice that the total maintenance repair budget has remained fairly constant. Since. All three of these key expenses increase this past year.

This is the first time in the past three years that we have seen an increase. Part of these increases may be the result of statewide fleet data normalization and increases in fuel, repair and depreciation expenses. The annual maintenance and repair costs continue to hold steady at an average of approximately \$3m annually. This is remarkable with regard to continued price increases and market inflation.



Motor Pool (Short Term) Operations

DFO has been working very diligently to arrive at the “Real” cost of operating a daily motor pool. During the past few years, DFO has been engaged in a strategic initiative to properly identify these expenses.

Below is a summary of the program 10-step plan to get control of the daily pool operation:

Initiative #1: Identify all state vehicles in a pooling capacity. For this initiative to take place DFO had to implement a comprehensive fleet information system to track state vehicles.

Initiative #2: Reduce the existing higher daily rate to 1/20 of the monthly lease vehicle rate. This had to occur to remove the advantage agencies used in an effort to reduce daily pool costs. (Agency leased vehicles on a monthly basis to save daily pool lease costs, but did not properly utilize vehicles.)

Initiative #3: Work closely with each agency pooling vehicles and transfer these vehicles over to DFO. DFO transferred vehicles from Human Services, Tax Commission, Health and Others to directly manage the motor pool vehicles statewide.

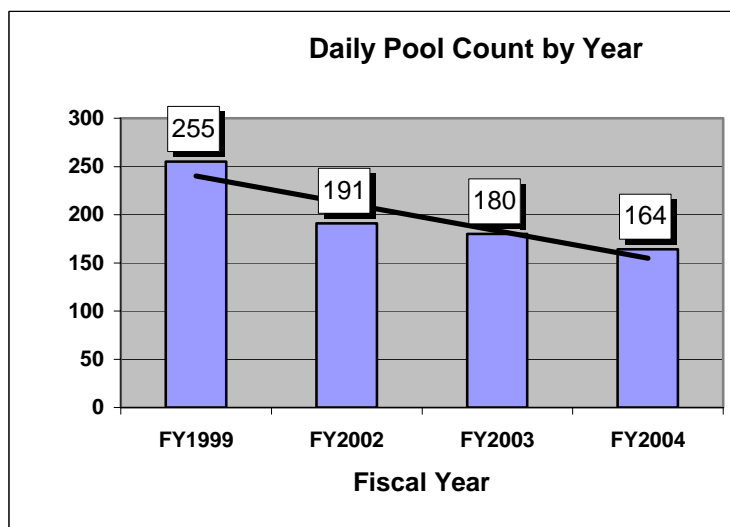
Initiative #4: Identify staff involved in the daily pool process. Work with agencies to compensate them for staff.

Initiative #5: Create a new cost accounting center to track “Pool activity” separate from the monthly leased vehicles. This was essential to get the exact costs of the daily pool operations.

Initiative #6: Track daily pool vehicle operational costs for three years to obtain enough data to configure a new rate and better manage these assets.

Initiative #7: Analyze the daily pool operation and determine how to reduce costs. Consider partnering with an outsourced vehicle rental company to size the daily pool to the low side of demand. A contract was initiated with a private rental company to achieve this objective.

Initiative #8: Work with the rate committee to present a fully burdened rate that captures all daily pool operational costs. New rates will be implemented in FY 2006. The new rates are based on a utility rate of 70%. This requires DFO to better manage the fleet assets to maximize use.



Initiative# 9: Analyze the daily pool process to further reduce costs and increase efficiencies in the daily pool.

Initiative #10: Study the daily pool operation each year to determine if it is cost effective and efficient. Compare daily pool rates to private vendor lease offerings and outsource if necessary.

The result of the above management objectives has yielded many successes relating to the daily pool operation. The most significant success relates to the overall size of the daily pool. DFO has reduced the pool from 255 vehicles (1999) down to 164 vehicles. This is a decrease of 91 daily pool vehicles. The average daily pool vehicle costs approximately \$4,000 dollars annually to operate. The net effect of these initiatives results in an annual savings of about \$364,000 dollars.

Now that DFO is tracking this program in its own cost center, it's working to optimize the process even further. The program continues to lose money currently. DFO is focusing its efforts on these losses to determine how this program can become more cost effective. If DFO can't perform this function competitively compared to private vendor offerings, it will move to privatize its daily pool operation, proving privatization yields lower costs to the state.

Outsource Rental Partnership

As we've systematically reduced the daily pool to increase utilization we have seen a decrease in overall pool costs. The division's proposed new rates for FY2006 have increased to an estimated .53 cents-per-mile. We recently ran a quick Analysis of our pool costs compared to the outsourced rental company's costs (See Table). In FY2004, we used our outsource rental contract to lease 93 vehicles (Peak demand) at an average cost of \$68.67 per day. These vehicles traveled a total of 44,339 miles, at a cost-per-mile of .84 cents. Our proposed new rate is still lower approximately .30 cents lower than totally privatizing the pool. DFO will continue to review the daily pool operation in an effort to reduce costs.

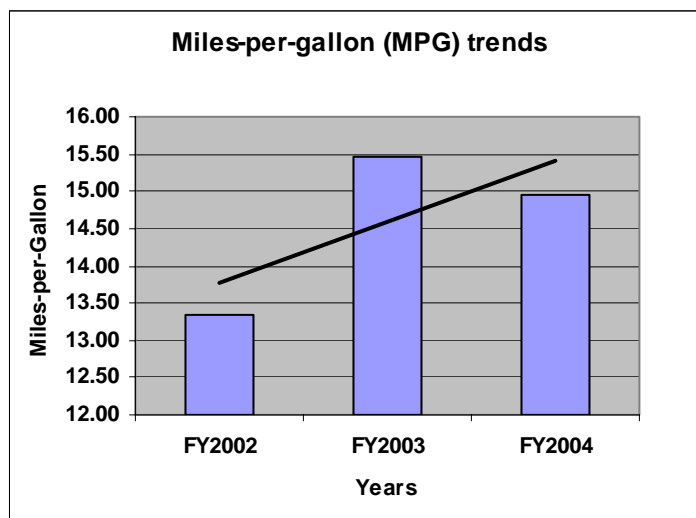
FY2004	Cost-Per-Mile	(CPM)
DFO Pool	Outsource Contract	Savings
.53 Cents	.84 cents	.31 cents

Miles per Gallon (MPG)

The MPG associated with a vehicle operation is an important measurement toward making sure a fleet is efficient. DFO has been measuring this benchmark since its creation. DFO has created an online report that produces MPG exceptions. This exception report can be used by each agency to manage their fleet vehicle more effectively.

MPG has a direct relationship to the odometer reading spoken of earlier. To gain control of the vehicle MPG statistics, the latter had to be accomplished. The graph to the right shows MPG trend for the past few fiscal years.

AS you can see by the chart the average MPG per vehicle is climbing in direct proportion to the "meter reject" and mileage odometer reading program. This correlation demonstrates why DFO considers accurate mileage to be the lifeblood of good fleet management.



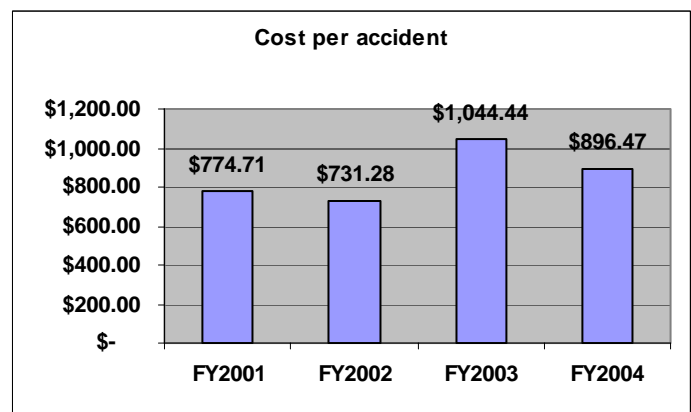
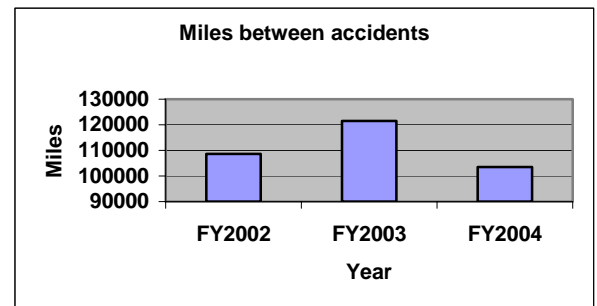
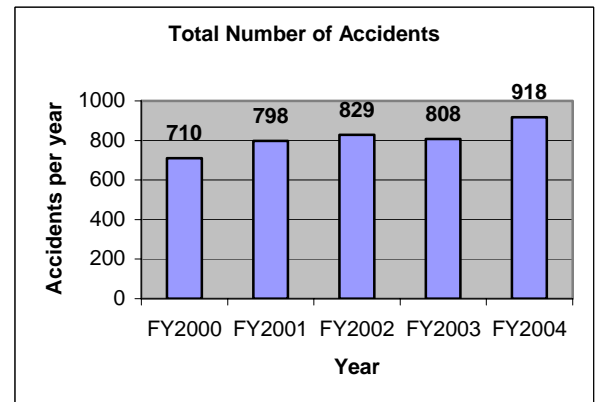
Accident Management

The division has the responsibility of all state-owned vehicle accident management and risk programs. This past year the number of accidents statewide is up by almost 10% since FY2002. This increase is

alarming. However, some of the increase may be attributed to an emphasis on accident management and reporting standards.

During the past few years the DFO has implemented the following processes to curb the growing trend of the number of accidents that occur annually:

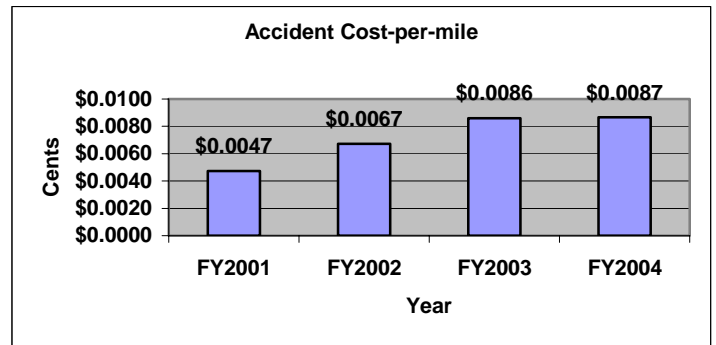
- ✓ Created several administrative rule(s) that require each agency to review vehicle accidents on a regular basis using an Accident Review Committee (ARC) process to analyze operator accountability,
- ✓ Requires state vehicle operators to have a valid “Driver license (DL)” to use a state vehicle. DFO created an automated interface with the Department of Public Safety’s license record database. DLs are checked on a weekly basis.
- ✓ DFO tracks several benchmarks related to vehicle accidents including,
 - Total accident by year: This measurement shows the annual trend of vehicle accidents statewide.
 - Mile-between-accidents: This measures total vehicle miles traveled between accident occurrences. (103,482 miles)
 - Accidents per Million miles: This tracks the frequency of accidents for every million miles traveled. (9.66 accidents per million miles))
 - Accident cost per incident: This key indicator track the average dollar cost of each accident (\$896.47).
 - Accident Cost-per-mile: This shows the overall cost of accident for each mile the vehicle travel. (\$.00087)
 - Operator fault: This benchmark is derived from the ARC records showing whether the accidents were “Preventable” or “Non-preventable”. This past year the percent of “preventable” was 43% to “Non-preventable” of 57%. This is down and is an improvement from the previous year.



Fleet Operations is working closely with the Division of Risk management to mitigate future vehicle accidents. The Goal is FY2005-06 is to partner with the Division of Risk Management and implement a statewide “Vehicle Accident Prevention and Awareness Program”.

Unfortunately, the accident management program this past year did not respond as well as we’d hoped it would, based on the changes in policy and practice. In FY 2005 DFO will concentrate more effort to the accident management program to see if this trend can be remediated. Hopefully this increase is related more to increased program focus versus an increase in accident trends. Now that the proper policies and tools are in place, the division can work closely with Risk management to reduce future accidents.

On a positive note, the cost per accident slightly dipped this past year to under 1,000 per incident. This is first time we've seen this benchmark reduce since we've been tracking it. See graph called "Cost per accident". This may also explain the very minimal cost increase of accidents per mile traveled.



Law Enforcement Equipping Program

DFO works closely with the Department of Public Safety to equip their vehicles with emergency equipment. This venture has been greatly streamlined over the past few years and is beginning to yield major savings in cost avoidance and increases productivity. The quicker DFO can get a DPS vehicle on the road the greater impact to the citizens of Utah. Last year the team of DFO, DPS and Information Technology (ITS) reached a major milestone. This past year this team significantly reduced the time involved to equip a DPS vehicle saving an estimated \$120,000 in depreciation cost avoidance.

Bi-weekly reporting

The Operations program maintains a detailed "Bi-weekly" report that contains dozens of key indicators DFO track to improve the fleet management of the state's vehicle assets.

Section 3

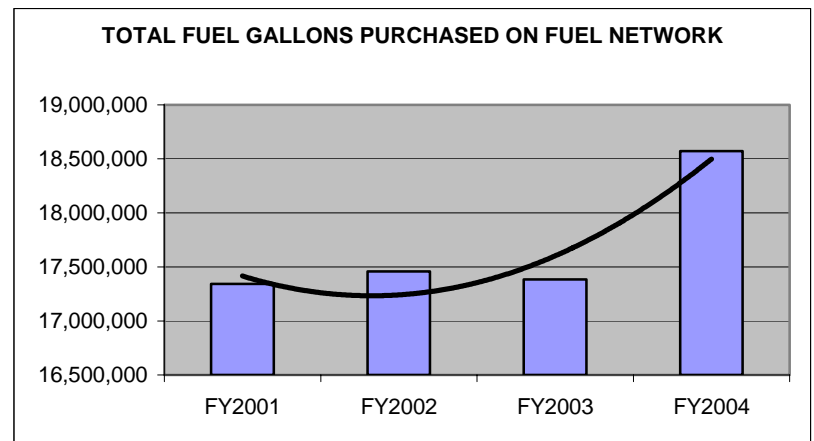
Fuel Network Program

Overview

The fuel network program is the county's foremost example of government and municipal cooperation. The network is an amalgam of state agencies, county governments, school districts, cities and special legislative districts all working together for one unified cause, "To provide fuel for government vehicles at the lowest possible cost to the taxpayers."

The program continues to expand each year as it adds more municipal subscribers wishing to reduce fuel expenditures. The program works by partnering with a private company

(FleetCor/Fuelman-GasCard Inc.) that provides a nationwide network of public and private fueling facilities. This convenient network of fueling outlets aids in saving the taxpayers by allowing each entity subscriber to access vehicle fueling services within their local jurisdictions with a purchasing economy of over 17.6 million average gallons annually.



The division [Fuel Network] shall operate a fuel dispensing services program in a manner that:

- ❑ Reduces the risk of environmental damage and subsequent liability for leaks involving state-owned underground storage tanks;
- ❑ Eliminates fuel site duplication and reduces overall costs associated with fuel dispensing;
- ❑ Provides efficient fuel management and efficient and accurate accounting of fuel-related expenses;
- ❑ Where practicable, privatizes portions of the state's fuel dispensing system;
- ❑ Where practicable, privatizes portions of the state's fuel dispensing system;
- ❑ Provides central planning for fuel contingencies;
- ❑ Establishes fuel dispensing sites that meet geographical distribution needs and that reflect usage patterns;
- ❑ Where practicable, uses alternative sources of energy; and provides safe, accessible fuel supplies in an emergency.
- ❑ Ensure that the state and each of its agencies comply with state and federal law and state and federal rules and regulations governing underground storage tanks;
- ❑ Coordinate the installation of new state-owned underground storage tanks and the upgrading or retrofitting of existing underground storage tanks; and ensure that counties, municipalities, school districts, and special districts subscribing to services provided by the division sign a contract that:
 - (i) Establishes the duties and responsibilities of the parties;
 - (ii) Establishes the cost for the services; and
 - (iii) Defines the liability of the parties.

The Fuel Network works closely with each one of its customers to maintain an active “Fuel user” and “Site management” agreements respectively between its user entities. In addition to these contracts the program provides “Real-time” customer service accounting, several online reporting processes and an ongoing “Fuel Management Report” to assist agencies with the efficient management of their vehicle fueling.

FY 2004 Summary- “A year in review”

The fuel network upgraded its system to a web enabled system, providing a greater range of reports and customer service. Over the past fiscal year the fuel network has added several new customers on the network.

New Municipal Customers

Joining the state’s fuel network in FY2004 include: City of Orem, Virgin Town, Bona Vista Water Dist, Mapleton City Police Dept, Millard Co Road Dept, Heber City Corporation, Springville City Police, Town of Goshen, Levan Town Ambulance, USGS Utah Coop Unit, and Washington Co Regional Park.

The Fuel network has grown by over 20% the past four years with the same number of FTEs managing the process. This is truly a model throughout the country that municipal government can partner together and centralize common tasks in an effort to save precious tax dollars. DFO visits with and works with other states on a regular basis to demonstrate the Fuel Network concept. State’s have expressed they envy when it comes to our overall network compared to what their own state offers.

Remote fuel site access

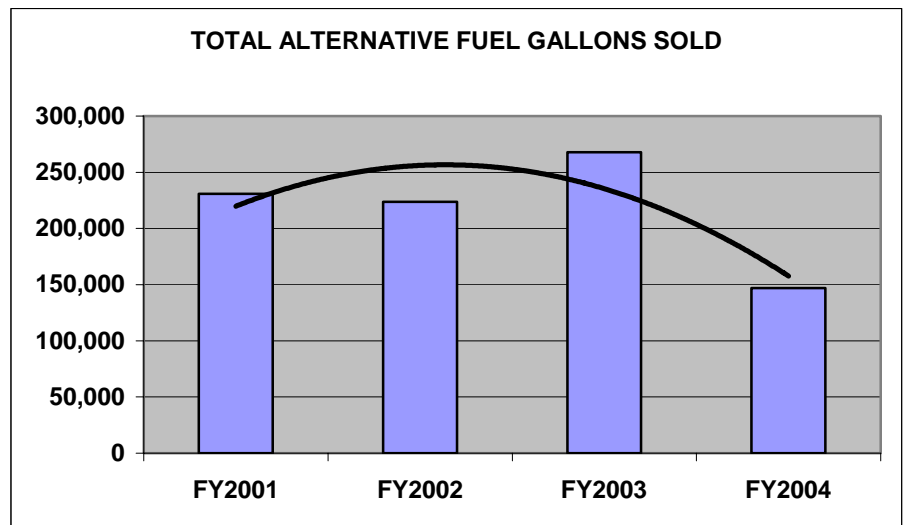
DFO implemented a remote system that allows us to access the level of fuel in the state’s 135 fuel sites. This new sensing software allows DFO to obtain fuel tank inventories remotely. This helps us reduce travel and direct personal costs in the division, allowing us to do more with less. We currently have one FTE that orders millions of gallons of fuel for these sites each year. This FTE also maintains adequate inventory levels for the state owned sites to make sure fuel is available year round. This remote access tool is truly amazing.

Consolidated fuel savings

On average the entire fuel network see about a 10-cent per gallon price reduction over normal retail fuel sales based on the state’s volume. At last year’s 15 million gallons this equates to an overall savings of **\$1,500,000** dollars annually. The state benefits from this volume directly by saving **\$635,070** dollars a year.

Alternative Fuel (AF) Program

The fuel network manages the AFV fuel distribution program for the state of Utah. Part of this responsibility is to manage the different types of AF choices available to state vehicle users. The network currently maintains eight Compressed Natural Gas (CNG) fueling facilities statewide. Additionally, the network is an active member of the Salt Lake Clean Cities Coalition (SLC3) and helps plan the future alternative fuel vehicle (AFV)



infrastructure in the state. For the past several years the network has seen an increase annually in CNG fuel purchases as the state fleet actively meets the federal governments AFV mandates. However, this past year the network has noticed a decline in overall CNG purchases. This is primarily due to two factors, 1) State fleet has began uses its AFV credits collected from proactively following the mandate during previous years, and 2) Lean budget times which called for less expensive AFV vehicles to be purchased.

Emerging Fuel Technologies

As the state continues to purchase AFVs to meet the federal mandates it has turned to new newer technologies. These technologies include Ethanol (E-85), Bio-Diesel and the most exciting technology yet, “Hybrid Vehicles”. These vehicles run on gaseous fuel and electric energy and get upwards to 60 mile-per-gallon. The cost of a hybrid vehicle is still around \$5,000 more than its standard vehicle counterpart. The state has helped SLC3 increase AFV fueling sites around the state. Currently there are over 20 AFV fueling facilities located throughout the state, including four (4) E-85 sites. Many of the manufacturers are turning to “Hybrid” technology to comply with the government mandates. This is the most exciting technology to come along in the fleet industry for the past 20 years, since the onboard computers. DFO will continue to evaluate this new technology to see if it is economically feasible to purchase more hybrid vehicles in the future.

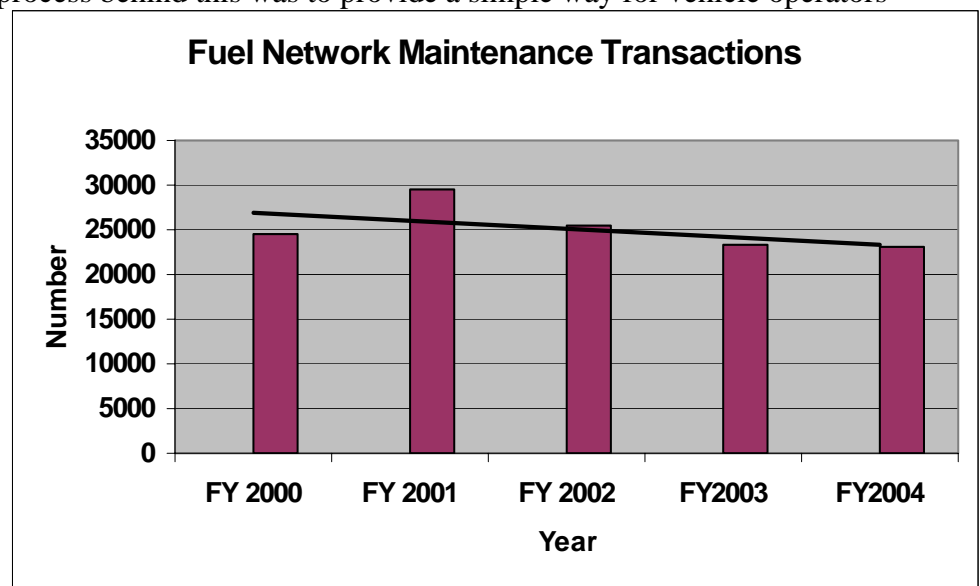
Maintenance Transactions

Since the inception of the fuel network over 15 years ago the vision was to provide an easy process to complete minor maintenance transactions for vehicle using vendors on the network like Jiffy Lube and Goodyear tire outlets. The thought process behind this was to provide a simple way for vehicle operators to perform the basic vehicle repairs with ease. This was a good solution in the beginning as the state’s fleet management operation evolved.

However, it became evident in the past few years that the data provided via the network’s maintenance vendors was inadequate. DFO implemented a statewide information system that introduced standardized Vehicle Repair and Maintenance System (VRMS) coding (American Trucking Association). This

coupled with the necessity to add additional DFO staff to approve vehicle repairs forced DFO to re-think the process. During the past three years, DFO implemented a pilot program to test an outsourced maintenance vendor repair service. The initial analysis showed DFO that they could save approximately \$100,000 dollars a year by outsourcing the vehicle maintenance. Additionally, the outsourced maintenance vendor was able to recapture warranty dollars that DFO was not staffed to go after. Consequently, DFO privatized all vehicle repairs to save additional state fleet dollars. Each year the private vendor network has continued to save money as other state fleets join with DFO.

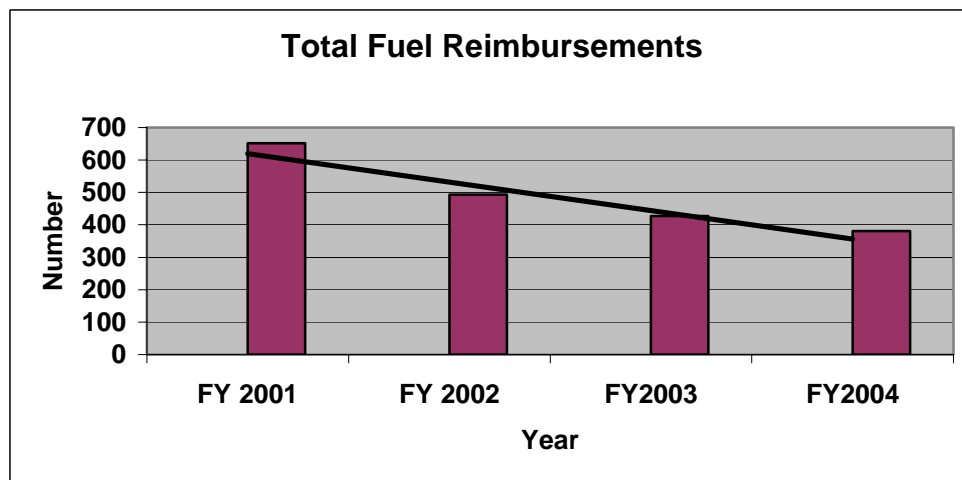
Since the introduction of this privatized maintenance, the total maintenance transactions on the Fuel Network have begun to decline slightly the past few years. This is mainly due to DFO’s influence to get its fleet customers on the new outsourced vendor repair Network. The new network provides much greater



repair detail of the actual services performed, allowing fleet management to make better and more informed decisions. The data is downloaded each month contractually and DFO receives much more accurate data. To date, the network vendor has returned almost \$125,000 in “Post-warranty” repair dollars to the state. These are dollars the state would not have received without hiring a full-time “Warranty specialist”. Prior to joining the network DFO did not have the knowledge, expertise or resources to go after “post warranty” dollars. The network has proved to be a real cost saving venture for DFO and a benefit to the taxpayers of Utah.

Fuel Reimbursement Process

Several years ago, DFO made a concerted effort to make sure each person operating a state vehicle used the Fuel Network as proscribed by statute. As the division moved forward to monitor all fuel transactions several hundred agencies still would use other state budget dollars to make fuel purchases. This caused DFO to create and maintain a “Fuel reimbursement Process”. DFO has steadily worked with agencies to eliminate this extra work. This equates to a manual solution in an automated process. There are some occasions when computer equipment is down for repair or cause that agencies may have to purchase fuel outside the Fuel Network. However, DFO is doing everything within its means to discourage and capture these fuel transactions through its automated daily downloaded process. The graph below shows the steady decline of annual fuel reimbursements processed by DFO to move the budget dollars from agency budget to fleet.



Section 4

Surplus Property Operations

Overview

This operation consists of four (4) separate property acquisition and disposal programs that handle used state and federal assets in a centralized, organized and ethical manner to avoid fraud, misuse or loss. The program houses the following operations:

1. State Surplus Property Program
2. Federal Surplus Property Program
3. Federal Law Enforcement (LESO) Property 1033 Program
4. Federal Law Enforcement Purchasing Contract 1122 Program

FY 2004 Summary- “A year in review”

State Surplus Property Program

This program’s primary task is to dispose all state property in an ethical and profitable manner. The program handles all types of state property from assets to animals. The program has several venues for property disposal:

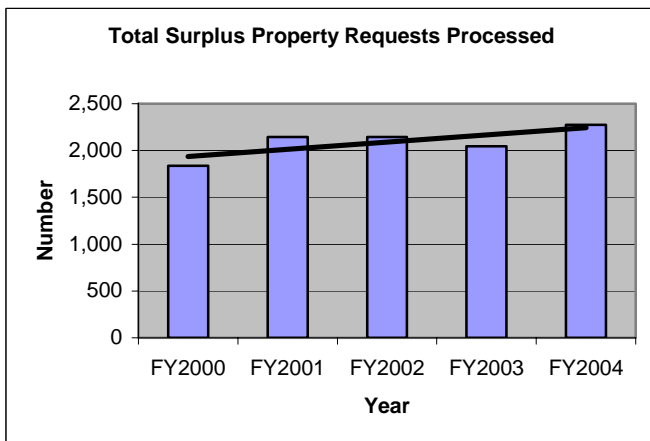
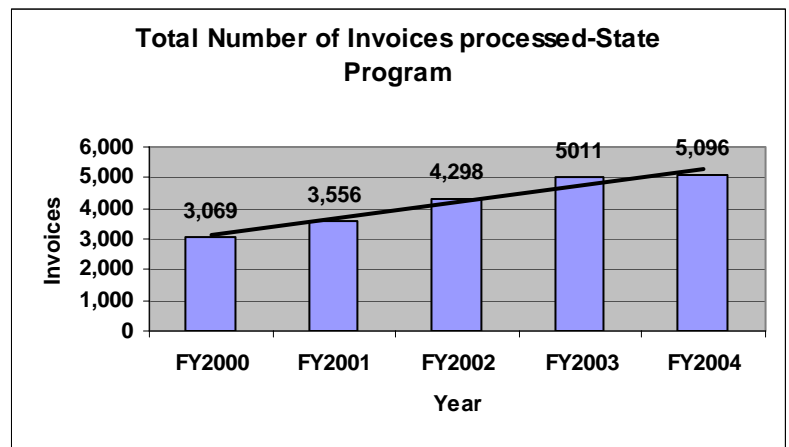
- ❑ Online Auctions
- ❑ Sealed bids
- ❑ Retail sales
- ❑ Outsourced Auctioneers

During the past year the total staff administering the Surplus programs has been reduced to by 2 FTEs responding to changes in the operational revenues. Despite these reductions the operational FTEs are still managing the state’s property disposal programs at an efficient level. The graph to the right indicates the number of sales invoiced processed annually from various customers. Since FY2000 Surplus has seen a increase of over 2,000 invoices annually. This represents an increase of 40% while the staff is reducing.

The total number of SP-1s processed has also increased by 19% during the same period of time. See Graph below:

Online Auction Services

One of the biggest changes we’ve seen in the area of State Surplus property is related to the sale of property using online venues. The Surplus program uses several different online auction sites to sell property. The program currently uses companies like, eBay, eSurplus sales, and our own in-house surplus site. The actual type of property determines which venue Surplus uses to get the best return on state



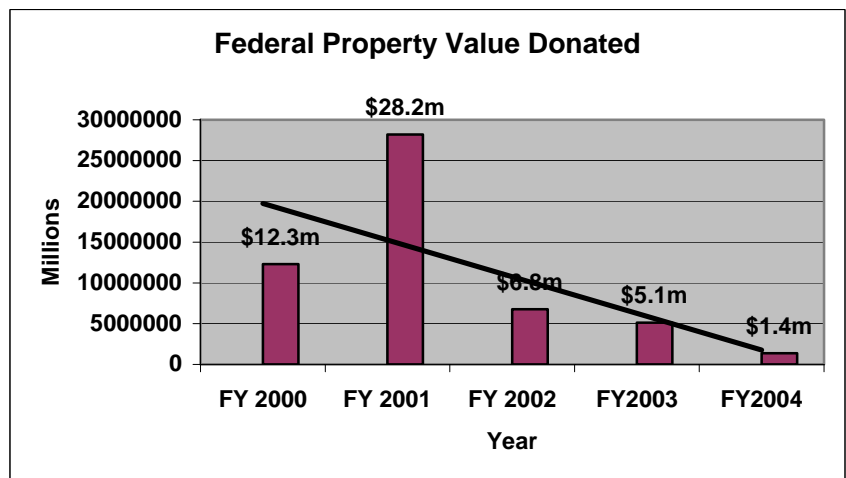
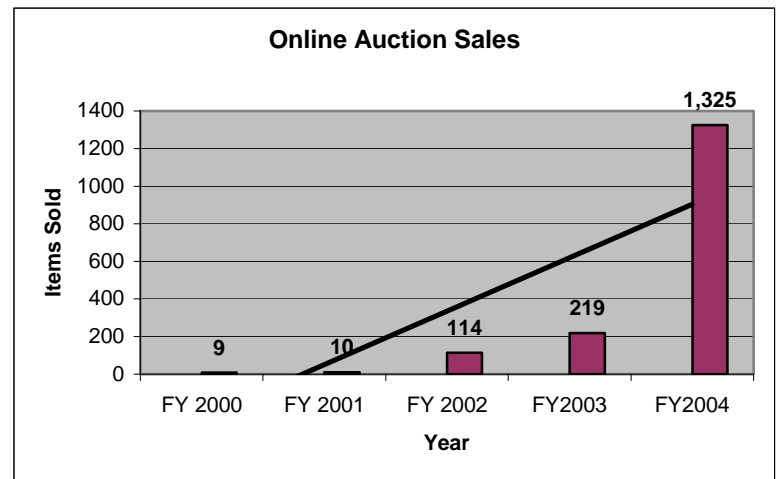
property sales. Some items do better on certain auction sites. Below is a graph showing a dramatic increase using online auction sites for the past several years.

Federal Surplus Property Program

The federal program operates as a conduit for the federal government to provide used property to Utah municipal government and qualified donee agencies. This program works closely with the federal government. Federal property is very regulated and the program aids with monitoring, compliance and auditing of the assets donated to qualified entities.

The last several years this program has been on the decline both financially and operationally. In FY 2004, the division implemented a five-step plan approved by the Legislature to reduce further financial losses. The program is showing some signs of improvement as we move into FY2005. There are several reasons for the decline in the Federal Surplus Program revenues. During the past five years the Federal Program has implemented many changes that directly affect our program. Below are a list of initiatives implemented by the Federal Government that have negatively impacted our operation:

- ✓ Federal Programs are using greater amounts of property internally before offering it to states for donations.
- ✓ GSA's benchmark called "Total Property Acquisition Value (TPAV)" has become less accurate the past few years relative to the percent of donation fees charged to agencies receiving the property from our Federal Program.
- ✓ Congress has continually reduced the number of Defense and military bases nationally reducing the number of outlets to screen for property.
- ✓ GSA has moved almost exclusively to an online format to screen property, this reducing the number of FTEs at the bases that we used to facilitate the property acquisition.
- ✓ GSA's online auction process has made the screening process more difficult as it relates to the actually quality of the property (Less physical inspections). We have been much more cautious about the property we bring in to donate.
- ✓ Congress has approved increased "Humanitarian Programs" where they abandon Federal property for other country's and allies to use. This saves the Federal Government money and increases relations with foreign governments.
- ✓ Utah has lost two primary Department of Defense (DOD) property-screening sites in our local area where we traditionally acquired property. (IE. Tooele Army Depot, and Ogden Defense Depot). We have one remaining facility at Hill Air Force Base. Other DOD facilities in neighboring states have disappeared as well.



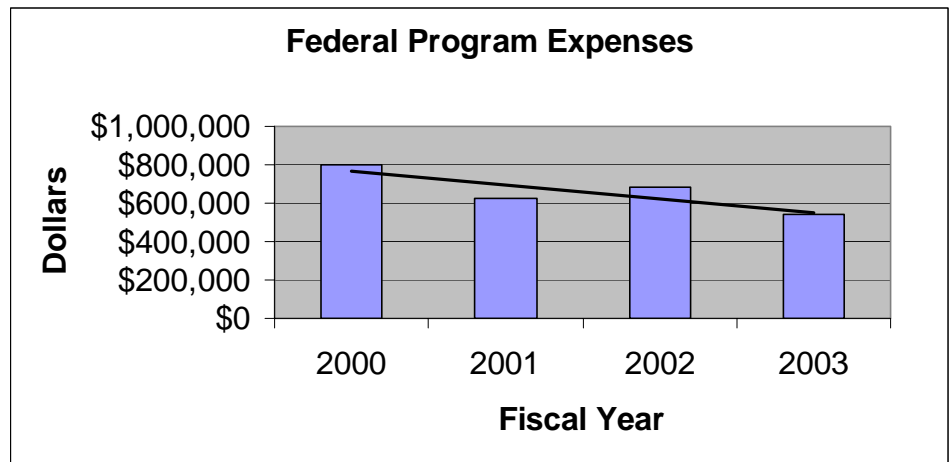
- ✓ Congress has also enabled DOD to sell “High demand” property to retail outlets to recover more costs internally to offset federal programs. (IE. Hummers, Fire Trucks, Auto sales, etc)

This downsizing and cost reduction trend by the federal government has had a direct impact on the Federal Surplus Program revenues. GSA TPAV benchmark has become less effective to measure the program’s success. However, it does provide a frame of reference that allows us to measure the volume of the program donations each fiscal year. The program donated an all time high of \$28.2 million in FY2001, which has declined drastically the past three years to its lowest level of \$1.4 million, since GSA implemented program changes.

Federal Surplus Program Initiatives

Below is a summary of the management initiatives and strategies that the division has employed the past few years to mitigate the ongoing revenue losses:

- Reduced annual budget since FY2000 by over 32%
- Reduced FTEs by over 500% since FY2000 (6 to 1.5) filling vacancies in the division. (See salary graph)
- Reduced inventory by 77% since FY 2001
- Reduced total expenditures by 52% since FY1999
- Reduced Contract programming costs. (See graph)
- Reduced Travel by 100% in favor of online screening
- Reduced over \$60,000 annually (FY2000) in office space costs for Operations Program to move them to Draper to occupy reduced space removed from Federal program.
- Implemented an online auction and screening process to increase service, reduce staff and office supplies.
- Long-range plan fell through-GSA decided not to make Federal Surplus a repository.
- Decreased compliance to a GSA minimum of 25% to reduce costs



Federal Program- “Five Point Plan”

A remediation plan was submitted to the Capital Facilities and Administrative Services subcommittee and approved by the Legislature on 4 February 2004. DFO refers to this initiative as the “Five-Point Plan”.

Below is a summary of the plan approved:

1. Division plans to acquire property when requested by an eligible donee. 10/12/2004
2. Discontinue physical inventory of federal property in the warehouse and move to a virtual inventory system using GSA’s online screening portals.
3. Reutilize the warehouse space and find another state agency to occupy the space, reducing administrative costs.
4. Continue to reduce employees in the program as we move to a virtual model.
5. Continue to maintain property compliance required by GSA

This approved plan demonstrates the state's USASP operation will continue into the future with its mission to assist donees with the acquisition of federal property. The plan was also designed to complement the changes introduced by GSA's move toward an online operation and reduce operational costs to administer the program. The state's intention is to continue tracking both the revenues and expenditures, as they occur, to maintain the operation. Further evidence of the division's direction to track revenues and expenses associated with USASP can be found in the monthly financial statements produced by the division's accounting office.

Interim Report to the Legislature

The surplus Property Program is required each year to submit a report of the technology transferred to the state's schools. This report is submitted to the interim Education committee and reviewed each year. Below is a copy of the report as it was submitted this past year.

Utah State Agency for Surplus Property Transfer of Technology Equipment to Schools



Interim Report July 2004



Department of Administrative Services/Division of Fleet & Surplus Services

Background:

Pursuant to Utah Code 69A-9-801(2) (b) (ix) and subsequent Administrative Rule R28-1-3 encourages State agencies to transfer their State-owned information technology equipment directly to public schools.

In addition, Utah Code 69A-9-801 (2) © establishes the requirement for an annual report prepared by the Utah State Agency for Surplus Property to be presented to the State's Information Technology Commission and to the Legislative Interim Education Committee at the end of each fiscal year.

Introduction:

This interim report covers the period of July 1, 2003 through June 30, 2004 at the request of the Office of Legislative Research and General Counsel. Upon preparation of the FY 2004 annual report at the close of the fiscal year a final report for transfer of all State-owned information technology equipment directly to public schools will be publish.

Program Overview:

The Utah State Agency for Surplus Property continue to honor all request from public schools for computers and computer components. Many of these request come through agencies at that time when surplus computers are declared. Some requests are received directly by USASP, and are usually from small town schools outside the immediate Wasatch area. More needs to be done to make rural Utah schools aware of this program.

Utah State Agency for Surplus Property
Computers for Schools Program
FY04 Donations

Donations are normally made in complete sets (cpu, monitor, mouse, keyboard & speakers [if available])

Date	School	CPU	Monitors	others
2/18/2003	Davis School District	32	32	
8/12/2003	Mount Harmon JrHigh	32	32	
8/22/2003	Iron County School District	20	20	
9/26/2003	Hobble Creek Elem.	6	6	
9/26/2003	Central Elem.	Declined		
10/6/2003	Riverview JrHigh	9	9	1 Printer
10/16/2003	Washington Terrace Elem.	25	35	
10/22/2003	South Weber Elem.	25	25	
10/28/2003	Clinton Elem.	25	25	
11/14/2003	Millard School District	Declined		
11/18/2003	American Preparatory	15	15	
12/3/2003	West Point Elem.	27	27	
12/17/2003	Adele C. Young Intermediate School	20	20	
12/18/2003	Doxey Elem	10	10	
1/2/2004	Centerville Elem	40	40	
1/15/2004	Unitah Elem.	15	15	
1/15/2004	So. Sanpete School District	4	4	
1/25/2004	Antimony Elem.	22	13	
2/9/2004	Adams Elem.	30	30	
2/9/2004	So. Weber Elem.	20	20	
2/13/2004	Duchesne HS	24	24	
2/22/2004	Cedar HS	35	35	10 Printers
2/25/2004	Hannah Holbrook	20	20	
2/27/2004	Bountiful Elem.	20	20	
3/8/2004	Millcreek JrHigh	24	23	
3/18/2004	Windridge Elem.	19	19	
4/6/2004	Crescent View Middle School	40	39	
4/7/2004	So. Sanpete School District	4	4	
4/7/2004	Jackling Elem.	11	11	
4/20/2004	Canyon Elem.	8	8	
4/23/2004	Landmark HS	38	38	
5/3/2004	Knowlton Elem.	21	18	
5/3/2004	Farmington Elem	21	19	